



A. JOSEPH DeNUCCI
AUDITOR

The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819

BOSTON, MASSACHUSETTS 02108

TEL. (617) 727-6200

NO. 2000-0508-3

**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
AS OF APRIL 30, 2000**

**OFFICIAL AUDIT
REPORT
DECEMBER 15, 2000**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

	<u>Page</u>
INTRODUCTION	1
<p>The Massachusetts Port Authority (Massport) was established by Chapter 465 of the Acts of 1956 to control, operate, and manage Logan International Airport, the Lawrence G. Hanscom Field, the Maurice J. Tobin Bridge, and the facilities comprising the Port of Boston. The enabling act states that Massport's governing body will consist of a Board of Directors composed of seven members appointed by the governor for seven-year terms, with the term of one member expiring on June 30 of each year. Massport's management staff is headed by an Executive Director, who is appointed by and reports directly to the Board of Directors. During the fiscal year ended June 30, 2000, Massport had revenue of \$316 million. Our audit was conducted to determine whether certain Massport administrative expenses were reasonable, relevant to Massport's mission, and in compliance with Massport policies and procedures.</p>	
AUDIT RESULTS	2
1. <u>Questionable Contributions Totaling \$606,500</u> : Our audit indicated that Massport made \$606,500 in contributions that were questionable in that they did not seem to be related to Massport's business or mission. These contributions included \$285,000 to the National Music Foundation in Lenox, Massachusetts, \$250,000 to the Massachusetts International Festival of the Arts (MIFA) in Northampton, Massachusetts, and several others.	2
2. <u>Misclassified Expenses</u> : Our review of certain administrative accounts disclosed that expenses were being misclassified. For example, included in the \$606,500 of questionable contributions noted in Audit Result No. 1 was \$501,500 charged to the Special Events account that should have been charged to the Contributions Account. Our review disclosed an additional \$312,212 of expenses that were misclassified.	5
3. <u>Travel Policy for Overseas Airfare Needs to Be Reviewed</u> : Our review of the Travel-Transportation Account disclosed large differences in the airfare rates that Massport paid for its employees. For instance, airfare rates for Massport employees traveling from Boston to London varied from \$411 to \$5,886 per person. Although Massport's travel policies do allow upgrading to business class for overseas travel, with differences of \$5,000 to the same destination, these policies should be reviewed to provide for more economical airfare.	7
4. <u>Monitoring of Frequent Flyer Program Needs to Be Improved</u> : Our review of Massport's frequent flyer program disclosed that, during the 22-month period ended April 30, 2000, only two awards for frequent flyer miles on Massport business trips were used. In addition, our sample of air travel expenditures disclosed that \$5,913 and \$1,683 were paid for airfare when the employees had sufficient frequent flyer miles to obtain tickets.	8

TABLE OF CONTENTS/EXECUTIVE SUMMARY (Continued)

	<u>Page</u>
5. <u>Legislative Consultant Fees Not Billed in Accordance with Contracts</u> : Our review disclosed that Massport paid for services rendered by legislative consultants without requiring all the consultants to provide records to document actual time worked and services performed as provided in these contracts. As a result, Massport had no mechanism for determining the nature of the services provided, the number of hours the consultants worked, the level of staff and their hourly rates, and what was achieved during the billing period.	9
 APPENDICES	
A. Questionable Contributions, September 1996 to April 2000	11
B. Consultant Contracts Reviewed by OSA	12

INTRODUCTION

Background

The Massachusetts Port Authority (Massport) was established by Chapter 465 of the Acts of 1956 to control, operate, and manage Logan International Airport, the Lawrence G. Hanscom Field, the Maurice J. Tobin Bridge, and the facilities comprising the port of Boston. The enabling act states that Massport's governing body will consist of a Board of Directors composed of seven members appointed by the governor for seven-year terms, with the term of one member expiring on June 30 of each year. The management of Massport and its operations are carried out by a staff headed by the Executive Director who is appointed by and reports directly to the Board of Directors. During the fiscal year ended June 30, 2000 Massport had revenue of \$316 million.

Audit Scope, Objectives, and Methodology

Our audit, which covered the period July 1, 1998 to April 30, 2000, was conducted in accordance with generally accepted government auditing standards applicable for performance audits. The objectives of this audit were to determine whether expenses charged to certain administrative accounts were (1) relevant to Massport's mission, (2) reasonable and in compliance with Massport policies and procedures, and (3) charged to the proper accounts. To conduct this audit we examined selected administrative expense accounts, analyzed financial records, examined invoices and payment vouchers, and interviewed Massport accounting personnel.

Based on our review we concluded that, except for the issue addressed in the Audit Results section of this report, during the 22-month period ended April 30, 2000, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. Questionable Contributions Totaling \$606,500

Our review of the Massachusetts Port Authority's (Massport) contribution account and special events account disclosed that \$606,500 in expenses were questionable in that they did not seem relevant to Massport's mission of controlling, operating, and managing Logan International Airport, Hanscom Field, the Maurice J. Tobin Bridge, and the facilities comprising the port of Boston. The seven recipients of these contributions and the amounts are shown below, and details are presented in Appendix A.

National Music Foundation, Lenox, Massachusetts	\$285,000
Massachusetts International Festival of the Arts, Northampton, Massachusetts	250,000
First Annual Sports Award Gala	25,000
Azorean Earthquake Relief Fund	25,000
Vienna Classic Gala	10,000
American Ireland Fund	10,000
Friends of Massachusetts Film Office	<u>1,500</u>
Total	<u>\$606,500</u>

a. \$285,000 Paid to the National Music Foundation (NMF): Massport made four separate payments to NMF totaling \$285,000. The request for payments state that these payments were a grant. We previously reported¹ that this \$285,000 was part of \$3,660,000 in grant money from federal, state, and Massport sources to build a national music center in Lenox, Massachusetts. In that report we recommended that the funding agencies consider seeking repayment of the grant funds because the property was going to be sold. During our current review we were informed by Massport's legal department that Massport had not executed any grant agreement with NMF and that the \$285,000 was a contribution.

The request for payments stated that the purpose of these payments to NMF was to continue financing efforts to complete construction of the national music center in Lenox, and that, because "the center has

¹State Auditor's Report on Certain Activities of the National Music Foundation, Inc., (No. 99-4397-3) dated October 5, 1999.

the potential to become a significant international attraction to tourists, music enthusiasts, academics, historians, and other researchers, this is an appropriate opportunity for Massport to support economic development and increase tourists to the region.” However, Lenox is more than 100 miles from any Massport facility, and the construction of a national music center does not appear to be related to Massport’s mission.

b. \$250,000 Paid to Massachusetts International Festival of the Arts (MIFA): Massport made contributions to MIFA totaling \$250,000 in three separate payments for the sponsorship of a festival in Northampton, Massachusetts to promote tourism in the Pioneer Valley region. However, our review revealed that there were no grants or contract agreements entered into between Massport and MIFA. As the Pioneer Valley region is located approximately 100 miles from Massport, there does not appear to be a relation between the festival and Massport’s mission.

c. Other Questionable Contributions: We noted a number of other contributions being made without any apparent relationship to the mission of Massport. For example, on September 11, 1998, a contribution of \$25,000 was given to the First Annual Sports Award Gala held in Boston, Massachusetts, and on September 25, 1998, a \$25,000 contribution was made to the Azorean Earthquake Relief Fund. In addition, contributions of \$10,000 each were given to the Vienna Classic Gala, and the American Ireland Fund. (For a summary of the questionable contributions see Appendix A.)

According to Massport guidelines, all requests for “contributions, the promotion of good will, and monetary donations may be made to benefit organizations associated with Massport” and must be prepared by the unit manager or department head and sent to the Director of Government and Community Affairs. The request should include a history of the agency or organization making the request, including officers, constituency, and progress goals, and specific information regarding the need for the funds and the type of assistance requested (e.g., financial technical advice and purchase of tickets/tables for special events). Final approval is made by the Deputy Executive Director.

During our audit, Massport officials indicated that Massport regularly makes contributions to the six communities that are adjacent to Logan Airport (East Boston, South Boston, Charlestown, Winthrop,

Chelsea, and Revere) and the four communities that are adjacent to Hanscom Field (Lincoln, Concord, Lexington, and Bedford). Contributions are also made to organizations that are not in the communities adjacent to Massport property.

We noted that none of these contributions went to a community that was adjacent to Massport. Also, of the 12 payments totaling \$606,500, only three had the approval of the Director of Government and Community Affairs. Furthermore, making contributions to entities such as the National Music Foundation and the Massachusetts International Festival of the Arts without entering into any grants or contract agreements provides inadequate assurance that the money is spent in accordance with the wishes of Massport and precludes the recovery of funds spent inappropriately.

Moreover, making contributions that do not relate to Massport's business or mission also appears contrary to Massport's goal of freeing resources for its construction program. In this connection, Massport's fiscal year 2000 budget guidelines call upon management and budget planners to continually examine expenditures and suggest ways to minimize costs so that resources are freed to support Massport's construction programs.

Recommendation:

- Contributions should be made only to organizations in neighboring communities or organizations that relate to Massport's business or mission.
- For large contributions Massport should enter into grant agreements that specify how the money will be used.
- The Board should consider establishing a limit above which Board approval is required.

Auditee's Response:

Large corporations are frequently called upon to play a significant role in corporate citizenship and charitable giving. Though Massport is in a somewhat different role as a large public agency, the fact that we are a major employer as well as operator of several large transportation facilities within our surrounding communities puts us in a similar position. The Authority is inundated with requests to assist many different charitable and economic development causes each year. In allocating our budget for such giving, we look for opportunities to closely link contributions with our mission and to prioritize causes that assist in economic development and lessen Massport's impacts on our neighbors. Sometimes the link between Massport and a charitable organization is very clear; at other times it is less obvious. For instance, a number of the organizations cited...have in the past sought Massport funds to promote activities that would generate tourism and/or travel to Massachusetts and have both a direct impact on

Massport's facilities as well as a broader economic impact on the region. These activities have not all been successful; as the State Auditor has previously observed, the National Music Foundation ultimately failed to live up to its promise as the major magnet destination for musicians and tourism that was anticipated. Several of the other organizations identified...relate to our mission of promoting international trade and tourism as a means of marketing Boston and New England as a destination, which increases the use of Massport facilities. Overall, however, Massport agrees with the Auditor's point that all contributions must be carefully scrutinized given our capital spending obligations, and we regret having to reject many requests for funds.

Auditor's Reply: This report does not question Massport's role in making contributions to organizations in neighboring communities or to organizations that relate to Massport's business or mission. Rather, the report questions the propriety of giving more than a half million dollars to two organizations without grant agreements that specify the purpose of the contributions, the ways in which the funds will be used, and the benefits to Massport. The same can be said for the contributions given to the First Annual Sports Award Gala and the Vienna Classic Gala. Clearly, a distinction should be made between charitable contributions to groups in neighboring communities and payments to organizations for economic development or promoting tourism and international trade. The latter should be classified as such and not as contributions, since it is inappropriate to use the contribution account as a vehicle for economic development or promoting tourism and international trade.

2. Misclassified Expenses

Our review of certain administrative accounts disclosed that certain expenses were being misclassified. For example, included in the \$606,500 of questionable contributions noted in Audit Result No. 1 was \$501,500 charged to the Special Events Account instead of the Contributions Account. Also, our review disclosed that 12 additional expenses totaling \$312,212 were misclassified, as follows:

<u>Date</u>	<u>Vendor</u>	<u>Misclassified Account</u>	<u>Proper Account</u>	<u>Amount</u>
6-30-98	North American Travel Service	Special Events	Marketing Initiative	\$ 42,000
6-12-98	AGK Nikles Limited	Special Events	Marketing Initiative	82,665
6-12-98	AGK Nikles Limited	Advertising General	Marketing Initiative	73,392
6-04-98	Wave Planet Co. LTD.	Special Events	Marketing Initiative	30,025
6-14-99	Centro Grafico Pirola	Special Events	Marketing Initiative	19,277

7-22-98	Marc's Crab House	Special Events	Employee Relations	4,853
1-01-98	Cassidy and Associates	Contributions	Legislative Consultants	10,000
2-01-98	Cassidy and Associates	Contributions	Legislative Consultants	10,000
3-01-98	Cassidy and Associates	Contributions	Legislative Consultants	10,000
4-01-98	Cassidy and Associates	Contributions	Legislative Consultants	10,000
5-01-98	Cassidy and Associates	Contributions	Legislative Consultants	10,000
6-01-98	Cassidy and Associates	Contributions	Legislative Consultants	<u>10,000</u>
	Total			<u>\$312,212</u>

Misclassifying expenses subverts the budgetary process, prevents management from monitoring accounts and controlling expenses, and causes the accounting department to spend time to analyze accounts and make adjusting entries.

The Contributions Account is for the cost of contributions, purchases of tickets, and similar payments for the promotion of goodwill, as well as for the benefit of organizations associated with Massport-related activities. In contrast, the Special Events Account is for the costs of all ceremonial functions, dedications, testimonials, and cooperative airline and community events, other than employee-related events.

We noted that the Special Events Account for fiscal year 1999 exceeded the budgeted amount by \$522,842 (\$931,261 - \$408,419), or 128%, and that the Contributions Account exceeded the budgeted amount by \$124,939 (\$567,334 - \$442,395), or 28%. However, if these expenses that were misclassified were charged to the proper accounts, the Special Events Account would exceed its budgeted amount by \$182,522 (\$590,941 - \$408,419), or 45%, and the Contributions Account would exceed the budgeted amount by \$286,439 (\$728,834 - \$442,395), or 65%.

Recommendation: Massport should instruct its managers to ensure that all expenses have been classified to the proper accounts.

Auditee's Response:

We agree with the...findings on the misclassification of spending for these six vendors and appreciate this recommendation, which has been implemented.

3. Travel Policy for Overseas Airfare Needs to Be Reviewed

Our review of the Travel-Transportation Account disclosed large differences being paid by Massport for airfare from Boston to London, as follows:

<u>Employee*</u>	<u>Date</u>	<u>Destination</u>	<u>Airfare Rate</u>
A	Nov. 6, 1998	London	\$ 411
B	Nov. 19, 1998	London & Paris	\$ 558
C	Sept. 8, 1998	London	\$5,547
Board Member	June 30, 1998	London	\$5,547
Board Member	Nov. 14, 1999	London/Ireland	\$5,886

*Employee A and B traveled coach with a one-night stay over a weekend. Employee C and the board member traveled during the week, business class.

Although Massport's travel policies dated November 15, 1995 allow for business class upgrades for overseas travel, with differences of over \$5,000 for the same destination, clearly these policies should be reviewed to provide for more economical airfare.

On May 10, 2000 Massport revised its travel policies on business class, as follows:

Requests to travel in business class must be submitted in writing and must include a statement of the reasons why business class travel is appropriate. Massport employees may not request upgrades for themselves or for anyone else, and should not assist in any other way with obtaining upgrades for themselves or others.

Recommendation: Massport should monitor its revised travel policies for compliance and consider whether it would be more economical to require employees on overseas flights to include a Saturday stay in their travel.

Auditee's Response:

Massport has recently revised its travel reimbursement policy to ensure more economical and accountable travel practices. Tight restrictions on the use of business class and requirement for advance purchase in most instances should reduce the disparity in fares observed by the Auditor in past years. However, we cannot rule out the possibility that last-minute travel of an unavoidable nature will necessitate paying a premium in rare instances.

4. Monitoring of Frequent Flyer Program Needs to Be Improved

Our review of Massport's frequent flyer program disclosed that, during the 22-month period ended April 30, 2000, only two awards for frequent flyer miles on Massport business trips were utilized. In addition, our sample of air travel expenditures disclosed that \$5,913 and \$1,683 were paid for airfare when the employees had sufficient frequent flyer miles to obtain awards. During this period Massport spent \$563,130 for transportation, most of which was for airfare.

Massport policy provides for employees (or direct support staff) to monitor and use frequent flyer miles earned on business trips to reduce future travel costs. Massport's travel agent obtains a frequent flyer membership from the airlines for employees designated as frequent flyers by Massport's Support Services Department, which maintains a log of the mileage balance of all employees who have frequent flyer miles. However, we noted that the mileage balances were often not updated and that this log was not being used to direct employees to obtain an award when they had earned sufficient miles for a free trip. For the policy to work, it is incumbent upon the employer to contact the airline directly in order to use the frequent flyer miles. However, neither the Support Services Department nor the travel agent seemed able to do this.

Recommendation: Massport should improve its frequent flyer program to take advantage of the cost savings it is designed to provide.

Auditee's Response:

Massport has had some difficulty in tracking frequent flyer miles accrued by Massport employees traveling on Massport business and applying the credits to reduce the costs of subsequent airline tickets. In developing our revised travel policy we struggled with how to manage frequent flyer miles to save money and to avoid ethical conflicts in the use of the credits. The policies of the airlines actually discourage the Authority's ability to use frequent flyer miles to the best advantage of the Authority in reducing travel costs, since the airlines treat them as the property of the individual travelers. However, we will continue to use the credits whenever possible to reduce the Authority's costs.

5. Legislative Consultant Fees Not Being Billed in Accordance with Contracts

Our review disclosed that Massport paid for services rendered by legislative consultants without requiring the consultants to furnish invoices that identify the persons who performed the services, their classifications, and the actual time and services rendered, as provided for in the contracts.

We reviewed the contracts and invoices for the three largest dollar amount legislative consultants, (A) \$252,000; (B) \$144,000; (C) \$120,000, and determined that the consultants were paid a monthly retainer (see Appendix B) that ranged from \$4,000 to \$10,000 per month. The scope of the consultant contracts were as follows:

- (A) To provide assistance to Massport's office of Government and Community Affairs regarding government relations issue with the City of Boston that relate to Logan Airport operations and to provide federal government relations counsel to Massport.
- (B) To facilitate federal relations and develop strategies in support of Massport and maritime matters.
- (C) To facilitate federal relations and develop strategies in support of Massport's aviation agenda.

The contracts state, in part:

Consultant shall submit monthly statements to the Authority setting forth actual time and services rendered. Consultant's statement shall be in such detail as the Authority may reasonably require to show the identification of the personnel performing services, their classifications, and the detailed nature and extent of services performed.

Our review disclosed that the monthly invoices gave no detail as to who performed the services and the actual time spent. Moreover, although two consultants provided some information on the nature of the services provided, the consultant with the largest contract (A) did not provide any details on the nature of such services.

Without the names of the persons who performed the services, the actual hours spent, and the nature of the services provided, Massport has no mechanism for determining how many hours the consultants worked, the level of staff and their hourly rates, and what it received for its money.

Recommendation: Massport should require that legislative consultants submit detailed monthly statements setting forth the actual time and services rendered as required in their contracts, and require

that these statements set forth the names, hours, and rates of pay for individuals who worked on the contracts and the nature of the services provided.

Auditee's Response:

From time to time Massport has obtained the services of certain legislative consultants to help develop and communicate our transportation agenda at the federal, state and local levels. Specific projects have included airside improvements, strategies for preserving volume through the Port of Boston, and regional aviation planning. The...monthly invoices submitted by these consultants do not contain contractually required, detailed information on services rendered. Though by nature these services are somewhat harder to frame as concrete deliverables than the vast majority of Massport's more traditional professional services contracts, we agree with the recommendation that the invoices should contain more detail and we will take steps to enforce this provision.

APPENDIX A

Questionable Contributions
September 1996 to April 2000

<u>Date</u>	<u>Recipient</u>	<u>Amount</u>	<u>Request by</u>	<u>Approved by</u>	<u>Stated Purpose</u>
9/17/96	National Music Foundation	\$150,000	Managing Director International Marketing	Managing Director International Marketing	Grant
2/10/97	National Music Foundation	50,000	Managing Director International Marketing	Managing Director International Marketing	Final Grant
6/25/97	National Music Foundation	35,000	Executive Administrator ²	Deputy Director	Towards National Music Center
10/28/97	National Music Foundation	50,000	Assistant Deputy Executive Director	Assistant Deputy Executive Director	Grant
9/11/98	First Annual Sports Award Gala	25,000	Board Member	Executive Director ¹	Massport as Sponsor
8/21/98	Vienna Classic Gala	10,000	Executive Administrator ²	Deputy Director	Massport as Sponsor
9/25/98	Azorean Earthquake Relief Fund	25,000	Executive Administrator ²	Deputy Director	For Community Program
10/20/98	American Ireland Fund	10,000	Deputy Director	Deputy Director ¹	Massport as Sponsor
2/22/99	Friends of the Mass. Film Office	1,500	Executive Administrator ²	Deputy Director	Massport as Sponsor of Academy Awards Gala
9/24/98	Mass. International Festival of the Arts	50,000	Director of MIFA	Executive Director ¹	Massport as Festival Underwriter
4/9/99	Mass. International Festival of the Arts	100,000	Director of MIFA	Director of Administration and Finance	Massport as Festival Underwriter
4/4/00	Mass. International Festival of the Arts	<u>100,000</u>	Executive Administrator ²	Deputy Director	Final Installment on Commitment to the Mass. International Festival of the Arts
	Total	<u>\$ 606,500</u>			

¹Also signed by the Director, Government and Community Affairs.

²Executive Administrator to the Executive Director.

APPENDIX B

Consultant Contracts Reviewed by OSA

	<u>Date of Contract</u>	<u>Consultant</u>	<u>Amount</u>	<u>Purpose</u>	<u>Reported on Monthly Invoices</u>
A.	3/18/98	Cassidy & Associates	\$ 60,000	Consultant to Facilitate Massport/City of Boston Governmental Relations	Monthly retainer only
	1/13/99	Cassidy & Associates	120,000	Amendment-Extend Terms	
	2/8/99	Cassidy & Associates	(24,000)	Amendment to Decrease Amount of Compensation	
	1/21/99	Cassidy & Associates	<u>96,000</u>	To Provide Federal Government Relations Counsel to Massport	
			<u>\$ 252,000</u>		
B.	5/18/99	Holden Bosworth	\$ 32,000	To Facilitate Federal Relations and Develop Strategies in Support of Massport Agenda and Maritime Matters	Listing of services performed during the month and monthly retainer
	7/22/99	Holden Bosworth	16,000	Amendment to Include Expenses Not to Exceed \$2,000 per Month	
	3/13/00	Holden Bosworth	<u>96,000</u>	Amendment-Extend Term and Increase Compensation	
			<u>\$ 144,000</u>		
C.	6/24/99	John Cahill	60,000	To Facilitate Federal Relations and Develop Strategies in Support of Massport Agenda	Paragraph describing the services performance and monthly retainer
	1/18/00	John Cahill	<u>60,000</u>	Amendment-Extension of Term	
			<u>\$ 120,000</u>		

Note: All contracts require "Monthly Statements Setting Forth Actual Time and Services Rendered."